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Acting Chief, C

24 August 1955

Chief, D/E

Your memo of 19 August requesting comments on Section D, "Barriers and Discriminations against Expanded Trade with the West Inherent in the Soviet Bloc System of State Trading", of draft paper prepared by Department of Commerce for the Foreign Ministers Conference in October.

#### A. Criticisms

1. The paper under review appears factually correct as far as it goes. There are other aspects of the problem, however, which merit consideration; these will be mentioned under B. Suggestions. In general the draft covers some important facets of the problem but is poorly organized and lacks clarity. The language in D-B "Constriction of Extra-Bloc Trade" is rather confusing, in that "parallel market" and "controlled bloc market" are meant to be synonymous but appear to refer to two different concepts. The original language from which this section is probably drawn (OIR contribution to NIE-100, Revised, Economic Warfare: Soviet Bloc "Capabilities" and Western Vulnerabilities, 6 Nov. 1953, pp. 7-9) is much more precise. The paper does not emphasize sufficiently certain major points, e.g., Soviet "government domination of arbitration" which is merely mentioned in the final paragraph and should be expanded considerably.

#### B. Suggestions

1. The Soviet philosophy of international trade is based on autarchical principles which sanction any commercial exchange only if it redounds to the political, economic or military advantage of the Soviet Bloc. As a result all trade is carefully controlled by government trading organizations. The Soviet method of restricting and prohibiting trade is not, however, found in its government measures, but in its planning arrangements which provide multifarious discriminatory practices, some of which are listed below by way of illustration.

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2. In order to have a successful and healthy relationship between the Soviet Bloc and the Free World, it is necessary that the Soviets subscribe to an agreed pattern of commercial intercourse. This should take the form of negotiated regulations or an agreement on commercial practices between countries with state trading mechanisms and those whose foreign trade is in the hands of private individuals and firms. The inequality of bargaining between state enterprises and private individuals is clearly evidenced by:

- a. Lack of a uniform concept of contractual relationships.
- b. Lack of protection of a common system of law and judicial recourse.
- c. Superiority of resources of a state organization.
- d. Larger scale of operation of a government monopoly.
- e. Absence of reliable commercial information, advertising media, and trade and production statistics in a monopolistic state.

3. The Soviets have recognized the desirability of removing discriminations of the Free World in trade with the Bloc by making strenuous efforts—to date successfully—to have western security trade controls relaxed. They furthermore had inserted in the recently signed Austrian peace treaty a clause pledging the Austrian government to "non-discrimination" in its economic relations with United Nations countries. A similarly worded declaration was included in the Belgrade communique issued after Marshal Tito's talks with the Russian delegation. This is evidently an attempt to neutralize western controls on strategic exports to the Bloc by committing the two countries to non-discrimination in trade with their Communist neighbors. If western countries should cut off exports of strategic goods to Austria and Yugoslavia because the goods might be transshipped to the Bloc, dissention would undoubtedly be created between these two countries and COCOM participants.

4. The following are illustrations of outstanding discriminatory trade practices of the Soviet Bloc which should be included or elaborated upon in the study. In the interests of establishing more amicable political and economic relations with the Soviet Bloc, these practices

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should be discussed at the Foreign Ministers Conference and their  
elimination formalized if possible by incorporation in a set of  
regulations or agreement:

I. Maximizing Terms of Trade and the Quid Pro Quo Principle.

- a. Insistence on strategic tie-in sales.
- b. Maximizing ratio of hard goods for soft goods.
- c. Increasing Soviet demands and pressure.
- d. Strategic or essential goods as conditions for purchase of  
hard-to-market goods.

II. Price Manipulation

- a. Premium prices paid for strategic and other goods.
- b. Premium prices paid as an inducement to trade.
- c. Bloc offers at low prices, including dumping and price  
slashing. N.B. II a, b, and c should take into account  
western industrialized countries and also underdeveloped  
areas. The Soviets do not need to be concerned with making  
profits or meeting production costs and thus can undercut Western  
bids in underdeveloped countries.
- d. Artificial exchange rate

III. Unreliability of Bloc

- a. Delays in delivery or signing of agreements.
- b. Heavy penalty clauses in trade agreements for delays or  
non-fulfillment of orders by the West.
- c. Threats of termination of trade agreements.
- d. Quality of goods not always up to specifications.
- e. Cancellation of orders.

IV. Other Discriminatory Practices

- a. The USSR has copied numerous patented industrial products  
and copyrighted materials of the US and other western  
countries and is continually attempting to obtain prototypes  
for this purpose. For example, Caterpillar tractors D-7 were

SECRET

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delivered to the USSR under Lend Lease and have been reproduced in the Soviet Union as Soviet tractors S-80. Bloc countries should be urged to sign the international agreement for protection of patents and copyrights.

- b. Illegal procurement activities, e.g. clandestine trade, blackmarketeering, smuggling, undermining national law, all of which are Soviet government policy.
- c. Veil of secrecy which makes inaccessible necessary commercial information, advertising media, and statistics on production and trade. In this connection there should be insistence upon publication of full trade statistics.
- d. Activities of Soviet expeditors (contract inspection in free-world shipyards, loading supervisors in ports, etc.) in western industrial and commercial centers; it is difficult to distinguish expediting activities from espionage efforts.
- f. Reinsurance practices.
- g. Port practices which often result in additional demurrage expenses.
- h. Enforcement of twelve mile zone.

5. Additional suggestions for discriminatory practices may be gleaned from the suggested charter for an International Trade Organization of the United Nations and from the charter of GATT.

6. In order to ascertain the experience of US businessmen in actual trade transactions with the Soviet Bloc, it might be desirable to work through OO contacts. Commerce Department informs us they do not receive many complaints from US firms as they are considered business secrets. Commerce does have a file, however, on cases on which arbitration has been unsuccessfully sought in the USSR.

7. The above remarks apply primarily to the European Soviet Bloc. The situation with reference to Communist China is even more complicated and must therefore be carefully considered.

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